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SUBJECT: MINISTER OF FINANCE JABR DISCUSSES KUWAITI DEBT,
2009 BUDGET PROCESS, I-CERP AND CUSTOMS TARIFF

Classified By: Economic Minister Counselor Marc Wall for reasons 1.4 (b)
) and (d).

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¶1. (C) Summary: Finance Minister Bayan Jabr told EMIN on January 26 that the GoI delegation to the Arab League Summit in Kuwait had discussed the GoI's debt with the Kuwaiti government, but that no resolution was reached over compensation for Kuwaiti Airlines damages. Although Kuwaiti Prince Sheikh Sabah al-Ahmed al-Jabir initially had accepted the USD 300 million offer from the GoI, the Kuwaiti government has now "changed its word." On the issue of reducing Kuwait's five percent cut of Iraqi oil revenues to one percent, the Kuwaiti Foreign Minister told the GoI that Kuwait will accept this only under UN pressure. Jabr reported that he rebuffed a move in the Council of Ministers to roll over unspent allocations from the 2008 budget, citing the need to protect GOI's international credibility, but noted that political parties were interested in allocating some Ministries, operational budgets directly to provinces and a passage to this effect was inserted in the new budget law. On I-CERP, Jabr said that those few Ministries interested in projects under I-CERP should draw up projects based on their budgets and work through the Ministry of Planning and Development Cooperation to gain matching funds for these projects with USG funds. On the GoI's customs and tariff rate structure, Jabr said that the Shura Council had studied the legislation on the tariff structure for five months and has already passed its proposal to the cabinet. Jabr also talked about activating the T-bill market for additional funding. End summary.

Minister Jabr: Kuwaiti Debt Not Settled

¶2. (C) Finance Minister Bayan Jabr, accompanied by senior advisor Aziz Jaafar, told EMIN and Finatt on January 26 that the GoI delegation to the recent Arab League Summit in Kuwait had discussed the GoI's debt with the Kuwaiti government. The Kuwaiti Government first sought USD 500 million to compensate Kuwaiti Airlines for damages from the 1990 invasion, but the GoI countered with USD 300 million. According to Jabr, Kuwaiti Prince Sheikh Sabah al-Ahmed al-Jabir had initially agreed to accept USD 300 million from the GOI to settle the claim. The MOF had turned the case over to the Justice Ministry for resolution and announced the settlement to the press. Showing his frustration, Jabr reported that he had just heard that the Kuwaiti government has "changed its word." When the Ministry of Finance followed up with the Kuwaiti government on January 25, the Kuwaiti officials demurred and responded on January 26 that USD 300 million only "stops the court decision8 but would not settle the claim in full. Jabr noted that the Kuwaiti commitment was made in the presence of GoI President Talabani and thought that the President should follow up this issue when a Government of Kuwait delegation comes to Baghdad to discuss debt and other bilateral issues.

¶3. (C) The GoI also raised the issue of reducing from five percent to one percent the amount of Iraqi oil revenues automatically paid to Kuwait under the UN Claims Commission (UNCC) as compensation for damages from the 1990 invasion.

The Kuwaiti government, according to Jabr, said that the Kuwaiti Parliament strongly opposes this request. Kuwait's Foreign Minister told the GoI delegation that his government will "reject this request once, twice, but will accept it the third time under UN pressure." Jabr smiled as he said &this is what they tell us: the pressure of a UN Security Council (UNSC) resolution will be used by the Kuwaiti government to justify the reduction to the Kuwaiti Parliament." Jabr requested USG assistance in obtaining UNSC support for such a resolution. Finally, Jabr said the Kuwaitis refused to discuss the issue of Iraq's additional bilateral debt of USD 8 billion, claiming that &we will never raise the issue.⁸ Jabr said that the Kuwaiti Government will most likely "hold onto" this debt issue and &waive a piece of paper⁸ when it suits them.

Budget: Cabinet approves draft

¶4. (C) Jabr noted that the Council of Ministers on January 25 approved a revised 2009 budget. Jabr recounted that while he was away, some Ministries and provinces had joined together to support rolling over the unused 2008 budget allocations to the 2009 budget. This is contrary to the budget law, but, more importantly, Jabr argued in the cabinet that Iraq will lose its international credibility with the International Monetary Fund and the international community. He underscored that if the GOI gives its word, it must stand by it, otherwise Iraq would not be able to operate successfully in the international market. He asserted that his arguments had persuaded the cabinet, which agreed to the budget without carry-over provisions. Jabr added that budget expenditures would go up, with a slight increases of USD 100 million dollars here and there. (Note: We understand that the figure

BAGHDAD 00000244 002 OF 002

for total expenditures in the current draft budget is USD 61.7 billion, up from the previous USD 59.5 billion and should be sent to the Council of Representatives soon.)

¶5. (C) Each province's share of the 2009 budget will reflect its share in population, Jabr said. The KRG provincial governments will initially keep a 17 percent share of the 2009 budget. He added that adjustments to the budget would be applied retroactively to January 1, 2009, after the census is completed in October or November 2009. If the census reveals that the population of the KRG is greater than 17 percent, they would receive the appropriate increase of budget funds; if less, then it would be adjusted accordingly.

He was not clear how such an adjustment could be made retroactively near the end of a budget year.

Budget: Article on Fiscal Federalism Added

¶6. (C) Jabr also discussed details of the article inserted into the budget draft that allocated some Ministries, operational budgets directly to the provinces. To put this into operational terms for the budget, Jabr stated that some Ministries, operational and investment budget that would be used in the provinces could be transferred directly to the provinces, based on the relative share of the populations. Such allocations would not be appropriate for those ministries that have a federal mandate such as oil, electricity, and national defense. Only ministries that have administrations represented in each province, such as health and education, can pass their money directly to the provinces. He commented that given the corruption in the Ministry of Trade on the public distribution system, such a direct allocation could be useful in curtailing corruption. The draft budget article stipulates that projects already underway must be completed by the ministry currently handling it, while the provinces, with ministry assistance, will handle all new projects. Jabr said that the newly-elected Provincial Councils will decide on new projects while the Governor will be responsible for running the provincial government.

¶7. (C) Jabr noted that the debate of direct allocations to the provinces had been taken up in the Council of Representatives hearings on the previous budgets. Jabr

explained that in the Council of Ministers, the issue arose again, and that there was no consensus. According to Jabr, the Sunnis, Kurds, and ISCI all support this article and favor a decentralized government and increasing direct allocations to the provinces. He admitted that others are opposed to this budget article and said that Deputy PM Barham Salih wanted the Council of Representatives to discuss this article further when they deliberate the Council of Ministers' budget draft. Jabr commented that he thought it would take two to three years for the GoI to reach a situation where every province has a budget situation like the KRG,s.

I-CERP

¶8. (C) On I-CERP, Jabr said that he informed the major ministries that the USG had agreed to match funds with the GoI, and instructed ministries that are interested in participating (he thought there might be four or five) to set aside funds from its budget allocations for projects that would have matching funds from the USG. He noted that the ministries have a strong incentive to come up with these funds, given that they stand to gain additional USG funds for their projects. The Ministry of Planning would oversee the process of working with the ministries to identify projects Qprocess of working with the ministries to identify projects and help match them with funds from the U.S. military.

Other Topics

¶9. (C) Jabr also noted that the MoF would like to activate a treasury bill and treasury bond market. The MoF already issues treasury bills every month and the Central Bank of Iraq (CBI) buys T-bills from the market. EMIN and Finatt pointed out that this market has not been functioning smoothly and should be fully developed before moving forward. He took the point and suggested a follow up meeting with the DG of Public Debt.

¶10. (C) On the GoI's customs and tariff rate structure, Jabr said that the GoI is working hard on its rate structure, &in accordance with the WTO accession process.⁸ Jabr added that the Shura Council had studied the legislation on the tariff structure for five months and has already passed its proposal to the cabinet. Recalling some concerns that the tariff structure might be widely dispersed, Finatt noted that lower tariffs or bands of tariffs would be easier to administer, avoid lobbying for special interests, and collect the full customs duty. The Minister offered to share the draft duty schedule with us, but noted that it is rather late to make any changes within GOI. EMIN suggested that the Minister may want to get in touch with USAID,s Tijara advisory team to discuss this issue further.

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